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LETTER DATED 8 FEBRUARY 1991 FROM THE PERMANENT REPRESENTATIVE OF DJIBOUTI TO THE UNITED NATIONS ADDRESSED TO THE SECRETARY-GENERAL

Pursuant to Security Council resolution 661 (1990) of 6 August 1990, I have the honour to inform you as follows:

Djibouti, as a State Member of the United Nations which totally adheres to international legitimacy, considers itself bound by the decisions of the Security Council, including those relating to the economic embargo set forth in the aforementioned resolution.

The Government of Djibouti has adopted practical measures in this regard.

The strict application of the embargo terms has had a grave impact on Djibouti in view of its extensive relations with both Iraq and Kuwait and the Gulf region as a whole and given the volume of financial assistance that it traditionally received from these countries. This situation constitutes "special economic problems" under the terms of Article 50 of the Charter of the United Nations.

In this regard and by virtue of the present letter, my Government officially requests that the Security Council enter into consultations, on an urgent basis, with a view to finding a solution to the economic problems facing my country.

I therefore submit to you a memorandum, entitled "Immediate consequences of the Persian Gulf conflict", on a broad spectrum of the country's life.

I would highly appreciate it if this letter and the attached memorandum could be circulated as a document of the Security Council. A new assessment is under way. However, the initial projected loss of $US 140 million is expected to increase to $US 225 million by the end of March 1991.

(Signed) Roble OLHAYE
Ambassador
Permanent Representative

READEX FICHE

Annex

Immediate consequences of the Persian Gulf conflict

Just as is the case with all the conflicts arising in the area, the Djiboutian economy is undergoing at the present time a series of changes in the aftermath of the crisis, which has simultaneously taken a toll on its budget and the working order of the structures in all sectors.

Short term

1. Cost of stabilization of oil product prices

The initial effect of the current crisis in the Gulf is an increase in the cost of oil prices. During the last five years, the "Etablissement public pour les hydrocarbures" (public establishment for hydrocarbons) (EPH), created to stabilize the prices of oil products, has consistently generated a financial surplus, which the Treasury often resorted to whenever in difficulty. Thus, 1.2 billion Djibouti francs (DF) ($6.8 million) have in practice been contributed to the Treasury annually from this source. The year 1990, expected to be a year for the refurbishing of the fragile budgetary resources through external sources, will experience, owing to the increase in the price of oil products, a shortfall of at least DF 1.8 billion ($10.2 million) merely for the stabilization measures. The overall cost to the State towards the stabilization of the prices of the oil products will therefore reach the amount of DF 3 billion ($17 million).

With the additional bill that the Electricity Generating Board of Djibouti (EDD) will have to pay and which represents the only energy source for the production of electricity in the country, the total induced economic cost is DF 3.7 billion ($21 million), which will add an extra DF 0.7 billion to the bill of the oil imports mentioned above.

2. Loss of fiscal revenues on trading business with neighbouring countries

Without taking into account for the moment the loss relative to the commercial activity with the neighbouring Gulf countries, which is estimated at more than DF 12 billion ($68 million) as a direct loss of revenue owing to the sharp fall in the volume of trade, the State budget will forego a further DF 1.5 billion ($8.5 million).

Consequently, owing to the new situation in the Gulf, the State budget will undergo a serious strain in the current fiscal year:

(a) Loss of earnings by EPH: DF 1.5 billion ($8.5 million);

(b) Decrease in EPH reserve: DF 1.2 billion ($6.8 million);

(c) Replenishment of the EPH stabilization fund: DF 1.8 billion ($10.2 million);

(d) Compensation to EDD to maintain the current rate of electricity: DF 700 million ($4 million).

Total budgetary constraints under this category are DF 5.2 billion ($30 million).

3. Higher importation and transport costs

Without in any way minimizing the adverse impact of external and internal economic factors operating in Djibouti and taking into account the daily upswing in the general price, the rise in the air and maritime transport costs is just another sign of the abnormality of the international situation. We must admit that a rise of no less than 15 per cent will hit our total imports. The loss to our economy will be at least DF 5.25 billion ($30 million), which will affect our foreign reserves and will further disrupt the livelihood of the population. This is, of course, a direct corollary of the risks engulfing our region as a result of the conflict.

4. Activities of small businesses

The volume of transactions of small businesses with the countries of the Gulf region is estimated at DF 12 billion ($67.7 million) a year at least. A loss in the amount of nearly DF 4 billion ($22.6 million) has been estimated. This activity is usually carried out by families without fixed income that constitute the informal sector of our economy.

5. Suspension of implementation of externally funded projects by Kuwait

Taking into account only those projects that are now in the process of execution through financing from the Arab Fund for Economic and Social Development in Kuwait, Djibouti is definitely confronted with the indefinite suspension of two important projects:

(a) The second phase of the extension of the container terminal at the port. This hold-up will frustrate our development strategy for the next decade. The programme involved the extension of the platform of the container terminal plus civil engineering works, at a cost of DF 3,375 million ($19 million), of which half was to be provided by Kuwait and the remaining balance by Saudi Arabia;

(b) Rehabilitation and extension of the airport. Only recently a contractor was selected and is in the process of executing the project.

Together with Saudi Arabia and the United Arab Emirates, Kuwait is also a major financier of this project, putting in almost 50 per cent of the overall requirements: DF 1,462 million ($8.25 million). The project covers the improvement of facilities, renovation of the runway and development studies.

6. Other projects fully funded by Kuwait

(a) Ministry of Education. A Junior high school planned to be constructed at Balbala at a total cost of DF 540 million ($3 million);

(b) Electricity Generating Board of Djibouti. A training centre under consideration for financing by the Arab Fund (in Kuwait) and the Kuwaiti Fund, estimated at DF 302 million ($1.7 million);

(c) Ministry of Interior, Posts and Telecommunications. A building annex scheduled to be constructed with financing from the Arab Fund (Kuwait) and the Kuwaiti Fund, estimated at DF 264 million ($1.5 million);

(d) Ministry of Agriculture and Rural Development. Institutional reinforcement estimated at DF 30 million ($170,000) was expected to be financed by the Arab Fund (in Kuwait).

7. Projects with Iraq

Several development projects on the basis of outright grants were under serious consideration by the Iraqi Government prior to the present crisis. These chiefly consisted of:

(a) Construction of 150 low-cost housing units, including civil engineering works, estimated at DF 4.5 billion ($25.5 million);

(b) Provision and plantation of 55,000 date palms for environmental reasons, and the estimate was DF 980 million ($5.5 million).

The total value of projects with Iraq now in jeopardy as a result of this conflict is DF 5,550 million ($31.3 million).

Summary of adverse economic impact

	(billions of Djibouti francs)	(millions of dollars)
1. Stabilization cost of oil product prices:		
Fall of contribution to the public Treasury by EPH	1.2	6.8
Shortfall in the stabilization fund	1.8	10.2
Additional cost to the Electricity Board	0.7	4.0
Subtotal	3.7	21.0
2. Budget loss on small businesses		
Loss of revenue in the budget	1.5	8.5
3. Increase in the price of imported goods		
15 per cent of the total amount of imports	5.250	30.0
4. Reduction of trading in the informal sector (small businesses)		
Loss of revenues	4.0	22.6
5. Suspension of projects with Kuwaiti Fund and the Arab Fund		
Second-phase of the Djibouti post development	1.6	9.0
- Restoration of Djibouti airport	1.5	8.5
- Junior secondary school	0.540	3.0
- Training Centre, EDD	0.300	1.7
- Institutional reinforcement in agriculture	0.030	0.170
Subtotal	4.010	22.370

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	(billions of Djibouti francs)	(millions of dollars)
6. Suspension of projects with Iraq		
Construction of 150 units subsidized housing	4.5	25.5
Programme for 55,000 date palms	0.980	5.5
Subtotal	5.480	31.0
GRAND TOTAL	23.940	a/

a/ Approximately $140 million.